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A clearinghouse for excess parts

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Source 2's Solomon: Computerizing the sales channels for electronics components.

In the high-stakes world of electronics, the sale of $38 worth of integrated-circuit chips is hardly a remarkable event. But when Avantek Inc., a maker of microwave systems, recently purchased 100 chips from Braegen Corp., a computer-terminal manufacturer, there was reason to take note: The parts changed hands from one company to another without the costly assistance of a broker. The deal marked the birth of a brand-new marketplace for manufacturers' excess inventories—the International Component Exchange.

Developed and run by a new Santa Clara (Calif.) company called Source 2 International, the exchange uses the power of a computer to match buyers and sellers of components, much as the stock exchange matches buyers and sellers of securities. It is at once a sales channel for equipment makers with unwieldy inventories and a new source of components for manufacturers with parts shortages. "The exchange helps you on both sides," says Myron Schwartz, a manager of purchasing for Memorex Corp., an exchange member.

Unlike traditional brokers, Source 2 never purchases, prices, or stocks parts. Rather, the company simply serves as a new type of information clearinghouse. "There is nothing stocked on our shelves," notes Robert A. Solomon, the company's president. "The inventory is stocked in computer memory." For its service, Source 2 collects 10% of the purchase price from the seller. Brokers, on the other hand, do not charge a fixed percentage but rely on making a profit by either buying at distressed prices or obtaining premium prices for those items in short supply.

Expansion plans. Since the exchange opened in April, some 150 companies—including such heavyweights as Xerox, Exxon, and Honeywell—have signed on, and Source 2 expects to attract 1,000 corporate clients by yearend. While the initial emphasis will be on recruiting electronic-equipment makers, Source 2 ultimately plans to serve other industries as well. "We have created a marketplace that never existed before," boasts Solomon. Concurs Memorex's Schwartz: "It is a service that has been needed for a long time."

So far member companies have listed $30 million worth of goods on the Source 2 computers. To start, the exchange will be trading only four products—integrated circuits, capacitors, transistors, and diodes. But within two years the company expects to be handling as many as 50 commodities, ranging from wire to cathode ray tubes.

Even the brokers have good things to say about their new competition. Jack B. Thompson, president of On-Time Components Inc., a Tustin (Calif.) "redistributor," calls the exchange a "creative idea" and a "viable alternative" to traditional brokering practices. Jack Strehl, president of Spectrum Electronics Inc., a San Francisco broker, says that in theory "the concept sounds great."

The human element. Source 2's Solomon figures that electronic-equipment makers worldwide are sitting on $50 billion worth of surplus inventory. Previously, they had the unappealing choice of either turning this stock over to a broker or watching the inventory build and interest costs mount.

Now member companies can tap into the component exchange by calling Santa Clara or one of Source 2's regional offices in Irvine, Calif.; Burlington, Mass., or Roseland, N. J. In October, Source 2 will open a fifth office in Chicago. The company's operators, sitting at display terminals, tell the buyers how many of the desired parts are available and at what price. If the requested part is not listed, the operators suggest substitutes, with an explanation of how the parts differ.

The human element is important, according to Solomon, who admits that the process might be simpler if each of his clients had its own terminal to communicate directly with the Source 2 computer. Solomon contends, however, that buyers for electronics companies feel uncomfortable talking to a machine. "They want to call Sally in Burlington, not a computer," he explains.

Other experiments. As recently as five years ago, this type of on-line information system would have been prohibitively expensive, if not impossible, to develop. But rapid advances in the software that manages massive data bases—particularly in cross-indexing capability—have opened up an array of new possibilities that make it much easier and faster to correlate information on the need and availability of specific parts. The Source

2 system can store 2.5 billion characters of information, and operators can recall any piece of the stored data in less than two seconds.

A number of equipment manufacturers, including Hewlett-Packard Co. and Datapoint Corp., have experimented with the exchange concept by establishing their own on-line systems for trading inventory between divisions. At HP, for example, about $2 million worth of surplus components is traded every year. But company officials estimate that an additional $1 million of surplus components will never move off the shelves. By joining the Source 2 exchange, "We can open up a larger market of potential buyers," says James O. Jones, procurement planning manager at HP.

Source 2 expects that its clients will net about 70¢ on the dollar for their surplus inventory. Some could fare even better. Hendrix Electronics Inc. recently used the exchange to sell 900 logic chips—and received the same price that it had paid for them. "Through a broker, we would have gotten 10¢ on the dollar," figures George A. Sylvester, vice-president of manufacturing of the Manchester (N. H.) company.

Equally important in buying is "the question of quality," Sylvester says. "When you go through a broker, you do not know where the component is coming from." Source 2 charges no membership fee, but it carefully screens all applicants.

A one-way exchange? Despite such precautions, some companies still worry about the quality question. On-Time Components' Thompson argues that it is to the advantage of the buyer to deal with a middleman because he is directly responsible for the parts being traded. Otherwise, Thompson says, "there is no control point to add integrity to the transaction." And while both HP and Tektronix Inc. plan to sell parts through Source 2's component exchange, neither expects to use the exchange for buying. As a result, Source 2 could run the risk of becoming a one-way exchange.

But Source 2 is highly optimistic. By 1986, it plans to be handling $1 billion in trade annually—worth $100 million in revenues. By then it hopes to be serving not only electronic-equipment makers but also other manufacturers, offering a product list that includes everything from sheet metal to epoxies. Declares a bullish Kirk T. Jensen, a Source 2 vice-president: "Now that we have put together an information marketplace, the possibilities are endless." ■